

**MULTIFAMILY DEVELOPMENT
ASSET MANAGEMENT
OPERATIONS MANUAL
UPDATED JULY 1, 2006
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MOST FORMS AND REPORTS REFERRED TO IN THIS MANUAL ARE LOCATED IN THE ELECTRONIC VERSION OF THE FORMS FOLDER WITH THE ELECTRONIC VERSION OF THE OPERATIONS MANUAL.

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SECTION I

UNDERWRITING

PURPOSE/OVERVIEW

The strength of VHDA's multifamily portfolio is dependent on a thorough underwriting process at loan origination. Asset Management assists Development as needed. The Asset Manager's involvement may include providing information regarding the market, rents, amenities, operating expenses, comparable properties, and/or information on the sponsor or management agent.

Asset Managers are encouraged to become involved with new developments during the various underwriting stages, and are encouraged to become knowledgeable of the various loan programs/funding sources. As VHDA develops more loan programs and allocates resources through more creative means, it is important for AM to remain current in Development's outreach.

Updated July 2006

SECTION II

INSPECTIONS

PURPOSE/OVERVIEW

Site inspections are an important part of an Asset Manager's responsibility in monitoring the management and operation of developments financed and/or administered by VHDA. Effective monitoring requires formal, announced site inspections and informal, unannounced site visits.

A. Scheduling/Inspection/Exemption/Follow Up

At the beginning of the calendar year, Asset Managers prepare annual inspection schedules for the year. Schedules are coordinated with the Tax Credit Compliance Department to ensure that any properties requiring the inspection of tax credit units are scheduled in the time period required by Tax Credit Compliance. The proposed inspection schedules of all Asset Managers are compiled into a master inspection schedule maintained by the Executive Assistant.

Every property is scheduled to receive an annual inspection. For unassisted properties, an annual inspection may be waived every other year if the property meets the criteria established on the Inspection Waiver. If the property is under construction, still in underwriting, or not yet final closed, an inspection waiver should be completed stating the reason why the inspection was not done. Therefore, for each property that appears on the inspection schedule, either an inspection report or inspection waiver will be generated.

The Manager of Asset Management will review the inspection schedule on a quarterly basis to determine the progress and timeliness of the inspections. A calendar year end log will be generated no later than February 10 of the following year. This report will be reviewed and initialed by the Manager of Asset Management.

HUD ASSISTED PROPERTIES

Effective January 1, 2004 all HUD assisted properties require the completion of the Asset Management Review for Assisted Properties. This report includes a Property Identification page, a Physical Inspection Report, a Management and Marketing Review, and a Unit Inspection Report. These are all formal parts of this report and are to be completed as such. Effective 7/1/06, HUD required that all contract administrators complete the new MOR HUD inspection form. Asset Management is in the process of working with Program Compliance regarding the implementation of this form as a number of questions will be addressed during the Asset Management Review.

VHDA is responsible for conducting the REAC inspections on the HUD insured portfolio. When REAC inspections are performed, the Asset Manager will utilize the REAC protocol. The VHDA Asset Management Review format will be used in those years in which a REAC inspection is not required.

CONVENTIONAL PROPERTIES

All properties other than HUD assisted require the completion of the Asset Management Review. The Marketing and Management Review, as well as financial information portions, are considered to be work pages. They are intended to serve as aids for completing the analysis section of the report. As such, they need not be typed and need not be included in the formal report. The first four pages of the AMR serve as the formal report.

B. INSPECTION MATRIX

HOUSING PROGRAM	FREQUENCY	UNITS INSPECTED	FORM
CONVENTIONAL	ANNUAL All properties are scheduled for an annual inspection. The annual inspection may be waived every other year at the discretion of the Asset Manager if the Inspection Waiver Criteria, which has been approved by AM Manager, is met.	A minimum of 5 vacant units per AMR, if applicable. (If units are being inspected per the tax credit program, it is not necessary to inspect 5 vacant units)	Asset Management Review
Uninsured Section 8 Uninsured Section 236 HUD insured VHDA loan (VHDA is the contract administrator)	ANNUAL	A minimum of 5 units per AMR, at least two vacant if available and the remainder occupied.	Asset Management Review--Assisted
HUD insured VHDA contract administrator (no VHDA loan)	ANNUAL	A minimum of 5 vacant units per AMR, if applicable. (If units are being inspected per the tax credit program, it is not necessary to inspect 5 vacant units)	Asset Management Review--Assisted
HUD insured VHDA loan (VHDA not contract administrator)	ANNUAL	A minimum of 5 vacant units, if applicable. (If units are being inspected per the tax credit program, it is not necessary to inspect 5 vacant units)	Asset Management Review--Assisted OR - REAC Protocol
Federal Low Income Tax Credit	As requested by the Tax Credit Compliance Manager	20% as identified by the Tax Credit Compliance Manager*	Low Income Housing Federal Tax Credit Physical Inspection Report

*Asset Managers request the site manager to notify residents that occupied units will be inspected as part of the inspection. If the units are to be inspected for tax credit purposes, a list of the units will be provided to the Asset Manager by the Tax Credit Compliance Officer.

C. Site Visits

Site visits are typically unscheduled, unannounced to the site, and informal in nature. The frequency of site visits is at the discretion of the Asset Manager.

D. Photographs

Photographs are taken at the discretion of the Asset Manager. Photographs are usually taken digitally and should be filed under the development's file on the VHDA network.

E. Preparation and Distribution of Reports

Inspection reports for HUD assisted properties should be prepared and mailed within 30 days following the date of the inspection. This inspection report is to be prepared, reviewed, and signed by the Asset Manager. The original report is filed in the development's working file, both electronically and in the "hard copy" file, and copies are distributed to the owner and the local HUD office.

Inspection reports for all other VHDA financed properties should be prepared within 30 days. A letter should be prepared and mailed to the owner with the results of the inspection. Should the property have DHCD financing, a copy of the letter should be forwarded to DHCD. An e-mail copy of the letter and report should be sent to the Manager of Asset Management for review. An electronic copy of the report will be maintained in the property's development file on the VHDA network.

Should the letter indicate that follow-up action is required by the owner/agent, a date must be specified, and the Executive Assistant will maintain a copy of the letter in a suspense file. Upon receipt of a written response by the Asset Manager, the response will be attached to the original letter and placed in the property's development file. The Executive Assistant will monitor the suspense file on a monthly basis, along with the Manager of Asset Management, to ensure that appropriate follow-up is being done.

If an inspection is performed for properties with Federal Tax Credits, the original inspection report should be forwarded to the Tax Credit Compliance Department.

SECTION III

FINANCIAL MONITORING

PURPOSE/OBJECTIVE

Financial monitoring is an integral and important part of an Asset Manager's responsibility in determining the security of a multifamily loan. The financial condition of a development may be assessed by reviewing its financial submissions. Additionally, an evaluation may be made on a development's adherence to regulatory and program requirements by reviewing financial reports.

A. Financial Reporting Requirements

Reporting requirements are based on regulatory requirements and outstanding loan balances (including DPNs and grants) for a conventional development financed by VHDA. Reporting requirements are based on HUD program guidelines for assisted developments. The charts below outline the relationships between loan size and financial reporting requirements.

ALL CONVENTIONAL LOANS

	MOS	BUDGET	AUDIT
Loans = > \$1M	Yes	Yes	Yes
Loans < \$1M	No	No	No

ALL ASSISTED LOANS

UNINSURED SEC. 8, UNINSURED SEC. 236 & HUD INSURED VHDA LOAN (VHDA IS THE CONTRACT ADMINISTRATOR)

	MOS	BUDGET	AUDIT
Loans = > \$1M	Yes	Yes	Yes
Loans < \$1M	No	No	Yes

HUD INSURED VHDA CONTRACT ADMINISTRATOR (NO VHDA LOAN) OR HUD INSURED VHDA LOAN (VHDA NOT CONTRACT ADMINISTRATOR)

	MOS	BUDGET	AUDIT
Loans = > \$1M	No	No	Yes
Loans < \$1M	No	No	Yes

For conventional properties with combined loan balances less than 1 million dollars, the submission of monthly and annual operating data are not required. While the regulatory agreements and other documents may indicate that these are required, it is not our policy to require these in the future. However, we may elect to require any reports that may be necessary if the Asset Manager feels that the situation requires additional oversight.

Waivers for some financial submissions on developments for which the sum of their loan balances are equal to or greater than \$1 million may be considered by the Asset Manager and authorized by the Manager of Asset Management.

B. Monthly Operating Summary (MOS)

The Monthly Operating Summary report should be submitted by owners/agents within 90 days following the permanent loan closing, or earlier if requested by the Asset Manager.

Every conventional and assisted development is considered for MOS submission. If the sum of the loan balances (including DPNs and grants) is less than \$1 million, monthly operating statements are not required. However, the Asset Manager may elect to require these at his/her discretion. If statements are collected, typically they are received by the end of the month following the reporting month.

If an Asset Manager has determined to collect MOS reports from owners/agents, the MOS system is used. To initiate a development in the automated MOS system, the Asset Manager activates the development. If an Asset Manager has determined to waive MOS reports, the MOS system should be de-activated. It is possible to activate MOS collection and de-activate MOS collection throughout the life of a loan.

MOS reports are filed by the Executive Assistant after the Asset Manager has reviewed the statement and input operational data to the automated system. A variety of reports may be generated from the MOS system for evaluation purposes.

There is MOS system documentation available that may serve as a user guide.

C. Budgets

A budget is submitted by owners/agents beginning with the year after permanent closing occurred. A budget should set forth the anticipated income and a detailed estimate of expenses for a development for the fiscal year. The budget submission and supporting documentation should include a VHDA P&L coversheet (or a format similar) and anticipated capital expenditures with proposed funding sources.

Every conventional and assisted development is considered for budget submission. If the sum of the loan balances (including DPNs and grants) is less than \$1 million, annual operating budgets are not required. However, the Asset Manager may elect to require these at his/her discretion. If budgets are collected, their due dates are outlined in the management agreement; typically they arrive 30 days before the fiscal year.

At the beginning of the calendar year, Asset Managers prepare a budget tickler. If budget submissions are waived, this is noted on the tickler.

The budget ticklers of all Asset Managers are compiled into a master tickler maintained by the Executive Assistant. The Manager of Asset Management will review the budget tickler on a quarterly basis. A calendar year end log will be generated no later than February 10th of the following year.

A Budget Review Analysis is completed for all developments that are required to submit budgets. Reviews completed for developments in which the DCR after reserve deposits is determined to be less than 1.10, or there is an operating deficit projected, are forwarded to the Manager of Asset Management for review.

Asset Managers answer several questions (called factors) in the MOS system on each active development submitting a budget. These are completed before a new year of entries are allowed by the MOS system.

Asset Managers may communicate the acceptance of a submission to owners/agents based on AM discretion. If capital needs assessment, capital improvement plans, or reserve funding clarification is appropriate, AMs discuss these issues with owners/agents and document this as needed.

The Budget Review Analysis is attached to the front of a budget submission and is filed in the development's financial folder by the development file, as well as the electronic file, by the Executive Assistant.

D. Audits

An audit is submitted by owners/agents beginning with the year in which permanent closing occurred, or as allowed by the AM in the case of a combined first year submission. The annual financial statement is prepared based on an examination of the books and records of the mortgagor. The VHDA Audit Guide should be used as a reference.

Every conventional development is considered for audit submission. If the sum of the loan balances (including DPNs and grants) is less than \$1 million, submission may be waived at the discretion of the Asset Manager. Every assisted development (VHDA contract administrator) with a VHDA loan is considered for audit submission. If audits are collected, their due dates are outlined in the management agreement, typically 90 days after the fiscal year. Extensions may be granted if requested by the owners/agents/auditors. Typically extensions are for 30 days. It is the responsibility of the Asset Managers to follow up on the status of outstanding audits.

At the beginning of the calendar year, Asset Managers complete the Audit tab in FMS to initiate the automated tickler report functionality. FMS stands for Financial Management System, and it is an automated system used to rate the financial performance of the loans in the VHDA portfolio based on the benchmark criteria used in the real estate industry.

Audits are input in FMS for all developments for which submissions are required. Ratings are calculated after input. Developments with a rating of a 3, 4, or 5, or developments in which a rating has been overridden, are reviewed by the Manager of Asset Management.

Asset Managers may communicate the acceptance of a submission to owners/agents based on housing program and/or AM discretion. If findings are noted, Asset Managers discuss these issues with owners/agents and document corrective action as needed. Asset Managers should complete the initial review of audit submissions within 90 days following the receipt of the audit.

A variety of reports may be generated from the FMS system for evaluation purposes. The Rating Summary and Individual Scorecard Additional Analysis and Override Report (if necessary) are attached to the front of an audit submission with the audit acceptance communication (if applicable). Audits are filed by the Executive Assistant after the Asset Manager and Manager of Asset Management have completed their evaluation and FMS input.

The Manager of Asset Management will review the Annual Financial Statement Status Log on a semi-annual basis. This report lists all outstanding financial audits. These reports will be run after June 30 and December 31 each year.

There is FMS system documentation and business rules documentation that may serve as a user guide.

Updated July 2006

SECTION IV

RESERVE ESCROW ACCOUNTS

PURPOSE/OBJECTIVE

Reserve oversight is an important part of an Asset Manager's responsibility in assuring that funding is available to address all/part of a development's long term and/or specific needs.

A. REPLACEMENT RESERVE ACCOUNT

The purpose of this account is to provide a source of funding for capital improvements, extraordinary maintenance, substantial repair, replacement of capital items, or for any other purpose authorized by Asset Management. Disbursements from the replacement reserve account may be made for the following:

1. Replacement, extraordinary maintenance, or substantial repair of capital items of a development.
2. Amenities or design modifications and improvements necessary or desirable for marketing.
3. Modifications or capital improvements that will reduce maintenance or replacement costs over a substantial portion of the term of the loan.
4. Modifications, including minor and major renovations, that will benefit a substantial portion of the residents or will make an important contribution to their livability in the development.
5. Purposes permitted or required by Asset Management.

Reserves should be built up and maintained at a level determined to be sufficient to meet all/part of the projected long-term requirements of a development. A Capital Needs Assessment may be required in order to provide the necessary data for developing such projections. Typically, reserve adequacy is evaluated with the submittal of annual operating budgets. Capital Needs Assessments are usually submitted near the beginning of a development's fiscal year, although they may or may not be prepared and/or updated annually.

Asset Managers should evaluate reserve balances and funding levels in comparison to the needs of a development, consequently this is done in conjunction with budget review. Monthly deposits to the reserve escrow may be adjusted (i.e., increased, decreased, deferred, waived) as necessity warrants and determined in discussions with a development's sponsor and/or management agent. Asset Managers should document reserve funding changes to S&C Servicing.

Capital Needs Assessments may be completed by a third-party or prepared by a sponsor or management agent. Asset Management has a spreadsheet template that may be shared with owners or agents. The length of coverage that a capital needs assessment provides is typically agreed on in advance, and the rule of thumb is five to ten years, preferably including a roof replacement cycle.

B. MISCELLANEOUS RESERVE ACCOUNT

The purpose of this account is to provide a source of funding for a specific need(s) of a development. Historically, assisted developments often established a miscellaneous reserve for periodic staining or exterior painting. Similarly to the replacement reserve account, a miscellaneous reserve may be used to fund projects with a defined replacement cycle. Alternatively, this account may be established at the discretion of the Asset Manager to address a variety of issues.

C. OPERATING RESERVE ACCOUNT

The operating reserve typically is established for assisted developments to provide a source of funding for the following:

1. Payment of any operating expenses of the development due to insufficiencies of the operating account.
2. Payment of distributions in accordance with loan documents.
3. Amenities or design modifications necessary or desirable for marketing.
4. Modifications, including minor and major renovations, or other improvements, including professional fees, that will reduce maintenance or replacement costs over a substantial portion of the term of the loan.
5. Modifications that will benefit a substantial portion of the residents or will make an important contribution to their livability in the development.

In the event funds on deposit in the replacement or miscellaneous reserve accounts are inadequate for the purpose of meeting the intended needs of those accounts, funds may be disbursed from the Operating Reserve account if the regulatory documents on an assisted development permit.

D. OTHER RESERVE ACCOUNTS

Other reserve accounts may be established for a variety of purposes. This is most prevalent during the rehabilitation and/or renovation of a property for which the loan has closed but work remains to be completed. There may also be instances in which a newly constructed property may have outstanding work remaining to be completed at the time of loan closing. Normally construction control officers will determine the adequacy of the work once it is completed; however, Asset Managers may also have this responsibility. The conditions and procedures for release of funds from this account are usually set forth in agreements between VHDA and the owner. Asset Managers may/will need to coordinate with development officers and/or construction control officers regarding disbursements from this account.

E. PROCESSING DISBURSEMENTS FROM RESERVE ACCOUNTS

Request for disbursements from a reserve account are prepared by a development's owner/agent, and typically include documentation from which an Asset Manager can determine the nature of the work for which funding is requested. Sufficient documentation may include one or more of the following:

1. Letter outlining the proposed and/or completed improvement work or replacement components
2. Contract
3. Invoice with apartment number, if applicable
4. Check copy that paid for a contract or invoice
5. Explanation that ties to a previously submitted capital needs assessment
6. Other documentation that explains proposed or completed work or purchased components

Asset Managers complete a Reserve Release Form for each request for disbursement that they have evaluated to be appropriate for funding. In addition to the Reserve Release Form, a printout from Strategy of the reserve balance(s), and the documentation from the owner/agent outlined above should be attached and forwarded to S&C Servicing for payment.

There are instances in which the Manager of Asset Management will need to approve disbursements from the reserve accounts. These instances include:

1. The advancement of funds for work that has not yet commenced.
 - a. In some instances, a development may require funds to initiate a project. The request should include invoices or a bonafide quote and/or contract submitted by the owner/agent stating the need for requesting the advance. The Asset Manager completes and signs the Reserve Release Form, attaches a printout of reserve balances from Strategy, and forwards the request to the Manager of Asset Management for approval. It is then forwarded to the Financial Servicing Department/Servicing and Compliance for disbursement of funds. It is the Asset Manager's responsibility to ensure that the work is completed in an acceptable manner and that the Reserve file is documented to indicate that the work has been completed. The original Reserve Release form is filed in the Financial Servicing Department/Servicing and Compliance file cabinet (in alpha order).
2. Authorization of distributions from the operating reserve account on HUD assisted developments.
 - a. A written request from the owner to the Asset Manager is required. The Asset Manager attaches the request to the Reserve Release Form, attaches a printout of reserve balances from Strategy, and forwards the request to the Manager of Asset Management for approval. It is then forwarded to the Financial Servicing Department/Servicing and Compliance for disbursement of funds.

F. SPECIFIC RESERVE USAGE AGREEMENTS

Asset Management may establish a unique agreement between an owner, agent, and VHDA on the use of reserve funds over a given period. Such an agreement should be well documented in letter form, signed off on by representatives of the owner/agent, and designate the specific usages of funds held in the reserve as well as deposit and withdraw patterns over a period of time. The practice of establishing a reserve usage agreement is a relatively new tool used by Asset Management, and its purpose is to outline a clear understanding of reserve mechanics. The Manager of Asset Management will review all such agreements before their proposal to a development's owner/agent.

Updated July 2006

SECTION V

RENT ADJUSTMENTS

PURPOSE/OVERVIEW

Rent adjustment guidelines, policies, and processing procedures vary according to applicable housing program. Additionally, rent changes may vary according to regulatory documentation within a housing program. The information outlined in this chapter serves as an outline for the Asset Manager in completing rent adjustments.

A. RENT ADJUSTMENT MATRIX

Table 1 - Rent Adjustments

The following matrix outlines the rent adjustment process by subsidized program type.

HOUSING PROGRAM	APPROVAL FOR RENT ADJUSTMENT	SOURCE DOCUMENTS	FORMS	FREQUENCY
Section 8	VHDA	HUD Regulations	Section 8 Rent Schedule HUD Rent Schedule	Annual
Section 236	VHDA Processes for HUD Approval	HUD Regulations	Section 236 Rent Schedule HUD Rent Schedule	As Requested by Owner/Mgt. Agent
Conventional	AM is not involved in the approval of rent adjustments	Regulatory Agrmt, Deed of Trust, Loan/Grant Agrmt., Regulatory Agrmt., Participation Agrmt., Commitment, Supplements	AM lists rents on the AMR	Not Applicable

B. CLARIFICATIONS BY PROGRAM TYPE

1. Section 8 Uninsured VHDA Contract Administrator

Asset Managers should refer to the most current guidelines published by HUD when processing rent and utility allowance adjustments. HUD regulations will change from time to time. These guidelines may be received through the Federal Register or special HUD notices. For quality control purposes, each rent/utility allowance adjustment should be reviewed by a second Asset Manager prior to forwarding to the Manager of Asset Management for signature.

Three HUD Rent Schedules should be signed by the Manager of Asset Management. All three HUD Rent Schedules should be sent to the Owner/Agent for execution and returned to VHDA. One executed copy should be sent to the HUD area office.

Asset Managers are responsible for reviewing utilities allowances annually.

Special rent adjustments may be processed for HUD approval as requested in accordance with the current HUD guidelines. Special rent increase requests are initiated by the owner/management agent. Asset Managers should forward these requests to HUD.

2. Section 236

Asset Managers should refer to the most current guidelines published by HUD when processing rent adjustments. HUD regulations will change from time to time. These guidelines may be received through the Federal Register or special HUD notices.

3. Conventional

The Asset Manager will note rents on the Asset Management Review during inspections. The affordability requirements noted in the regulatory and management agreements have been waived by VHDA, and rents no longer require the approval of the Authority.

Updated July 2006

SECTION VI

MANAGEMENT FEES

PURPOSE/OVERVIEW

The purpose of this section is to outline the management fee and performance bonus policy that have been established by the division. Information outlined in this chapter serves as a guideline for the Asset Manager in evaluating management fee structures.

A. BASIS FOR COMPUTING MANAGEMENT FEES

The monthly fee to be paid out of a development's operating account will be computed in accordance with the applicable provisions of the Housing Management Agreement.

1. Fees Based on Percent of Gross Collections

On conventional and some assisted developments, management fees may be calculated as a percent of gross collections or gross rental collections. Refer to the management agreement to determine specific terminology. Gross collections include rent receipts and other income received from operations, exclusive of reserve reimbursements, reserve interest, proceeds from insurance claims, security deposits, and excess income on Section 236 developments. Gross rental collections include simply rent receipts.

2. Fees Based on Per Unit Basis

Section 8 developments may elect to base their management fee on a per unit basis. A schedule of management fee limits has been established. The schedule is evaluated on a periodic basis and modified by the Asset Manager. The current fee structure, effective 5/07/02, is outlined below. (This fee will be evaluated in FY 06-07 and may be increased if needed.)

<u>Number of Units</u>	<u>Maximum Fee (PUPA)</u>
Under 25	\$475
25-50	450
51-75	425
76-100	400
101+	375

B. MANAGEMENT FEE INCREASES

Management fee increases for conventional properties do not require AM approval unless a specific loan workout, modification, or operations agreement is in place. Unless the property is still in lease-up and has not reached a stabilized operating position, the Asset Manager will authorize the fee increase agreed upon by the owner and management agent. Should the property still be in lease-up, Asset Management typically advises the owner that the fee should remain at the fee authorized during the underwriting of the development until such time that a stabilized operating position is achieved.

Management fee increases for Section 8 developments using a per unit basis for calculating fees, will be considered no sooner than two years after the most recent previous management fee increase. Upon receipt of a request for a fee increase, the Asset Manager will evaluate the performance of the agent based on the criteria set forth in the Criteria for Management Fee Increases. Should the criteria be met, the Asset Manager will authorize the increase. A maximum increase of \$25 per unit per year will be authorized up to the maximum per unit limit established and listed previously. Asset Management evaluates this fee periodically.

C. CENTRALIZED ACCOUNTING FEES

Many management agents for conventional and assisted developments receive a centralized accounting fee. The current maximum fee is \$2.25 per unit per month. Asset Management evaluates this fee periodically for developments that continue to pay this arrangement to agents, yet this centralized accounting fee is not used very much by developments underwritten since 2000.

D. SUPERIOR PERFORMANCE BONUS CRITERIA

Superior Performance Bonuses recognize effective management of HUD section 8 properties with per unit management fees. This bonus may be awarded annually and would represent an amount equal to one month's management fee.

Requests from representatives of owners of eligible developments for consideration to receive a superior performance bonus will be accepted by the Asset Manager after the completion of the development's fiscal year. The Asset Manager will consider these requests using the guidelines contained in the Superior Performance Bonus Criteria.

After the Asset Manager has concluded the review of the audited statements and the bonus criteria and has consulted with other necessary division staff, the Asset Manager will authorize the payment of the bonus from the property's operating account.

Updated July 2006

SECTION VII

LOAN REVIEW / LOAN UPDATE REPORTS

PURPOSE/OVERVIEW

The Asset Management Department will prepare, at the end of each quarter, a Loan Review Report and a Loan Update Report of those loans that could result either in a potential loss to VHDA or may require additional monitoring by Asset Management. These reports are applicable to VHDA financed properties only. To determine those developments to be placed on these reports, the Asset Managers may refer to the Delinquency Reports provided by Servicing and Compliance, their recent Asset Management Reviews (AMR), and reports from the Monthly Operating System (MOS) and Financial Monitoring System (FMS). Each Asset Manager will evaluate his/her portfolio using the "Criteria for Determining Placement on Loan Review and Update Reports" as a guideline.

For those developments that the Asset Manager determines are worthy of further analysis, he/she will complete the more detailed spreadsheet analysis referred to as the Property Analysis Worksheet. The completed worksheets will then be forwarded to the Asset Manager responsible for compiling the information that will then be placed on the appropriate report.

A draft of the report will be discussed with the Asset Managers, the Manager of Asset Management, and then the Director of Multi-Family Development. The Loan Review report will then be finalized, condensed, and forwarded to the VHDA Controller. The unabridged Loan Review and Loan Update reports will be distributed to all Asset Managers, Development Officers, the Director of Multi-Family Development, and certain members of his staff.

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Criteria for Determining Placement on Loan Review and Update Reports

Loan Review Report	Loan Update Report	<u>Condition</u>
X		1 Capitalized value less than VHDA loan balances
	X	2 Mortgage payment more than 30 days delinquent during past six months (from Robin's monthly Delinquent Multi-Family Loan Report)
	X	3 Loan appears on either the MOS Watch Loan or Troubled Loan reports or otherwise meets the criteria for same
	X	4 Compliance issues relative to bond and/or tax credit occupancy requirements
	X	5 FMS rating of 3, 4, or 5
	X	6 Bankruptcy, Workout, Reserve Waiver
	X	7 No or inadequate insurance coverage
	X	8 Default in other VHDA serviced loans
	X	9 Non-responsiveness to VHDA inspections, audits, requests for budgets and audits
	X	10 Physical condition of property needs improvement
	X	11 Other loans, which in the asset manager's discretion, should be on the Watch List

If any loan meets **Criterion #1**, it is to be placed on the **Loan Review report**, **EXCEPT** that the asset manager may use his or her discretion and elect not to include it on the Loan Review report if there are mitigating circumstances. **Proper written justification is required.** If any loan falls into any of the **Criteria 2 through 11**, the asset manager is to analyze the status of the loan and make their recommendation whether or not to include the loan on the **Quarterly Loan Update report**.

NOTE:

It should be recognized that because of the criteria established for the Project Warning Report generated from MOS, there will be numerous loans that probably will ultimately not be reported on the final **Quarterly Loan Update report**. One should assume that the Quarterly Loan Update report is actually a combination of the industry's typical Troubled Loan report and Watch Loan report (as explained by Nina), and that the loans with the most potential to turn into future Loan Review report candidates should be the only ones to actually be placed on the **Quarterly Loan Update report** that is finally distributed.

SECTION VIII

LOAN ASSUMPTIONS

PURPOSE / OVERVIEW

Another part of Asset Management's responsibility is to determine the validity, feasibility, credit worthiness, and structure for various loan assumption requests that are made to the Authority. Having a process for this review provides efficient and professional service to our customers, and enhances VHDA's sound loan review and asset management practices.

There are three (3) basic loan assumption requests that Asset Management will review:

1. Straight assumption, purchaser is known to VHDA;
2. Straight assumption, purchaser is unknown to VHDA;
3. HUD assumptions (236 or other HUD loans) – *All HUD loan assumption requests should be referred to Neal Rogers in Asset Management.*

The basic review process includes a number of issues and questions the asset manager must consider. They include, but are not limited to, the following:

A. VALIDITY, FEASIBILITY

First, the asset manager should notify several key divisions within the Authority that a loan assumption request has been made. These may include:

- | | | |
|----|--------------------|----------------|
| a. | AM Manager | Neal Rogers |
| b. | Legal | Paul Brennan |
| c. | Finance | Hil Richardson |
| d. | Development | John Hastings |
| e. | MF Servicing | Nina Nolley |
| f. | Program Compliance | Brenda Hawkins |

These divisions will determine if the assumption is permissible under the legal documents, and within the current financing parameters of the subject project.

B. CREDIT WORTHINESS

Second, all loan assumption requests must be **in writing**, and initiated by the current owner of the property. This letter should include the name of the seller and purchaser, the legal entities of both, and the seller's permission for VHDA to discuss the property with the buyer. If additional financing from VHDA is part of the loan assumption request, the asset manager will immediately forward the request to the Development Division. Development will determine the eventual structure of the assumption.

If additional financing from another source is being considered, the Asset Manager will evaluate the proforma to determine if the projected income can service the additional debt.

If additional financing is ***not*** part of the assumption request, the asset manager may review the request for the following:

- a. Written request from owner;
- b. Current personal and/or corporate financial statement(s);
- c. Copies, personal and/or corporate tax returns, past 3 years;
- d. Full name(s) & social security #(s), and Federal Tax ID #, if applicable;
- e. Current and previous addresses, past 3 years;
- f. A list of financial references including bank accounts and loan #'s;
- g. Copy, current sales contract;
- h. A plan/explanation for the future management of the site;
- i. Current credit report (if not available, VHDA will order (Proposed buyer will need to complete form authorizing VHDA to do credit check);
- j. Any other information necessary for VHDA to evaluate the proposed transfer;
- k. Borrower's attorney and phone #.

C. STRUCTURE

The asset manager may determine if a meeting with the prospective borrower is necessary.

- a. Any change in the management agent must be approved by VHDA;
- b. Must the new management company be trained in compliance, MF servicing, and asset management issues?
- c. Based on a cash flow analysis, will the project support the new debt structure?
- d. Is the borrower a 501(3)c corporation?
- e. Are there any physical issues with the site that must be addressed?
- f. Any secondary financing must be disclosed to, and approved by, VHDA;
- g. A processing fee (usually \$5,000) may be charged by VHDA.

The asset manager may consult with Development, Finance, and MF Servicing regarding the eventual terms and conditions of the proposed assumption. When the review has been completed, the asset manager will make a recommendation to the Manager of Asset Management. If the recommendation is accepted, the Legal Division will be notified of the decision, and they will complete the assumption process.